

March 7, 2013

The Honorable Arlen Siegfried, Chairperson
House Committee on Federal and State Affairs
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative Siegfried:

SUBJECT: Fiscal Note for HB 2180 by House Committee on Veterans, Military and
Homeland Security

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2180 is respectfully submitted to your committee.

HB 2180 would amend the Kansas Expanded Lottery Act to allow a veterans service organization (VSO) to operate, on behalf of the State of Kansas, one electronic gaming machine per 50 members rounded up to the nearest 50 members. The bill defines a VSO as any not-for-profit tax exempt organization which is devoted to providing services to military veterans. All net income from the electronic gaming machines must be used by the VSO to provide service programs to veterans. The Kansas Lottery would be allowed to charge a service fee to the VSO to offset certain costs incurred for the inspection of the electronic gaming machines and the review of how proceeds from the machines were used. The Kansas Lottery would also have the authority to adopt rules and regulations to implement the bill.

The Kansas Lottery indicates HB 2180 would require additional staff to inspect electronic gaming machines and to review the use of money generated by the machines at the VSO to ensure that the proceeds are being used to provide veterans' service programs. However, without knowing the number of facilities that would operate electronic gaming machines, the number of electronic gaming machines that would operate at each facility, and when the facilities would begin operation, the Kansas Lottery is unable to make a precise estimate of its gaming related expenses. The Kansas Lottery and the Kansas Commission on Veterans Affairs are unable to estimate the amount of net revenue that would be generated from electronic gaming machines located at VSOs; however, all of the net revenue would be used by the VSO to provide veterans with service programs. The State of Kansas would not receive any of the net revenue from electronic gaming machines located at VSOs. The Kansas Commission on Veterans Affairs indicates the bill would have no fiscal effect on its operations.

The Kansas Lottery indicates that allowing gaming machines to operate at VSOs would reduce revenue from the existing state-owned and operated gaming facilities. However, a reliable

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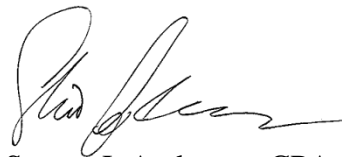
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estimate of the amount of revenue that would be reduced as a result of HB 2180 cannot be made without a detailed market study. Under current law, it is estimated that state-owned gaming facilities will generate a total of \$385.9 million in gaming revenue in FY 2014, which will be distributed as follows: the Expanded Lottery Act Revenues Fund (ELARF) is estimated to receive \$85,524,000, gaming facility managers are estimated to receive \$281,081,000, cities and counties where gaming facilities are located will receive a total of \$11,577,000, and the Problem Gambling and Addictions Grant Fund will receive an estimated \$7,718,000. It should be noted the Governor's budget recommendation is to use the ELARF to provide funding for the reduction of state debt, the University Engineering Initiative, and KPERS actuarial liability.

The Kansas Lottery also indicates that the state is prohibited from designating additional areas of the state where gaming facilities are authorized until July 1, 2032. If it is determined that HB 2180 violates this provision, the state would be required to refund privilege fees from already selected gaming facility managers plus 10.0 percent interest. Currently, the state has received \$55.5 million in privilege fees from three gaming facility managers and it is estimated that interest payments would require an additional \$16.5 million. These \$72.0 million in payments would presumably be financed by the State General Fund.

The Kansas Racing and Gaming Commission indicates that the Kansas Expanded Lottery Act makes it responsible for the testing, inspecting, and approving of all state-owned electronic gaming machines and required software, including the electronic gaming machines that are proposed in HB 2180. The Commission is also required to ensure that proper security and internal controls are in place. However, without knowing the number of facilities that would operate electronic gaming machines, the number of electronic gaming machines that would operate at each facility, and when the facilities would begin operation, the Kansas Racing and Gaming Commission is unable to make a precise estimate of its regulatory expenses. However, the bill does not address who is responsible for the regulatory expenses that are incurred by the Kansas Racing and Gaming Commission. Any fiscal effect associated with HB 2180 is not reflected in *The FY 2014 Governor's Budget Report*.

Sincerely,



Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Kafer Peele, Veterans Affairs
Stephen Durrell, Lottery
Brandi White, KRGC
Christi Nowak, Gaming